

The Governor:unfortunatley I shall not be able to join you when Sir J Morse calls,because I shall be at the Printing Works, I agree with all of this & I would be glad to hold a preliminary meeting on Gills paper except that I have a doubt on \* I have spoken to EAJG about this but I am still inclined to favour writing to the Chancellor

THE GOVERNORS

Copies to Mr Coleby  
Mr Goodhart  
Mr Somerset  
Mr Gill

CWN 22/7

See also 22.7.80

SIR JEREMY MORSE'S CALL ON THE GOVERNOR - 23 JULY

There are four points that you may wish to consider raising with the CLCB Chairman tomorrow -

## 1. CLCB Evidence to the Treasury Committee

As far as I can establish, the CLCB evidence was sent to Hubback by Priestley without reference to or copied either at the time or subsequently to the Bank. (I find that in fact I have received a copy of the CLCB response to the Treasury Committee's questionnaire from Hubback a week ago, and this is attached. I regret that I did not pick it up before. It is generally innocuous - though see the answer to Question B.10. It does not, however, appear to be the document from which Baker quoted yesterday. This is attached to Collins' note of 21 July.)

## 2 Housing Finance

attached. JIB

Since the Deputy Governor's conversation with Morse (note of 17 July attached) the CEOs discussed the Security Pacific incident and Graham confirmed to me that they would specifically not want us to amend our guidance to specify lending for house purchase as a low priority category, recognising that this would be extremely difficult to unwind when circumstances change. I told Graham that we intended to speak to the Chairman of ABAL to ask him to make the position with regard to housing finance clear to his members and to point out that episodes such as the Security Pacific incident - even where the institution in question is not a listed bank - are distinctly unhelpful to us. This is in hand. I made it plain to Graham that we could not, of course, guarantee that such incidents would not be repeated.

Like the Deputy, I am uncomfortable about the breach of faith by HMT, and have drawn Bridgeman's attention to it. (He subsequently had the terms of the Clearers' assurance, which had been repeated at the

JAC meeting by Mrs Gilmore after the Chancellor had spoken to Leonard Williams, removed from the Minutes of that meeting.) My own inclination now is to let the matter lie.

### 3 Reintermediation

The figures for the first three weeks of banking July suggest that there has been immediate, and massive, reintermediation since the ending of the corset. We will have better figures by the time of the scheduled meeting with the CLCB on 30 July, and, although it has been suggested that an earlier meeting might be appropriate, I believe that that would be soon enough, though the extent of reintermediation and how much more there is to come would appropriately be the focus for discussion under the usual Agenda item "Monetary Situation and Prospects". Depending on what the figures show it may be appropriate to have further technical discussion after the meeting with the Chairmen; and we may need to look to the clearing banks for help in presenting the figures on 5 August, as well as in interpreting them.

Concentration of reintermediation in July is not in itself unhelpful, since it gets it out of the way; and we have no grounds for complaining to the clearing banks about it since they did provide us with the opening to ask them to stagger reintermediation, which we chose not to do.

### 4 Cash Ratio Paper

I am circulating to-day a note by Gill on the figuring underlying the case for a differential cash ratio, in response to the comments that we have received in informal soundings of the non-clearers. It would be helpful if we could have a meeting, perhaps with the Deputy Governor, to discuss this question. Until we have done so, it would not be appropriate to offer Morse, even on a personal basis, a text which provides for a uniform ratio. The Governor may nevertheless care to mention to Morse that it has been put to us that since non-clearers already keep non-interest-bearing balances with the clearing banks it would be more equitable if the cash ratio, though extended to all banks, were still to apply differentially;

that we were considering this argument; and would let him see, on a personal basis, a draft of the cash ratio paper when we had carried our thinking on this issue a little further.

22 July 1980

EAJG

